

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7806

BILL NUMBER: HB 1583

DATE PREPARED: Feb 6, 2001

BILL AMENDED:

SUBJECT: Tax Credit for Conservation Easements.

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FUNDS AFFECTED: X

**GENERAL
DEDICATED
FEDERAL**

IMPACT: State

Summary of Legislation: This bill provides a credit against state tax liability for 25% of the aggregate assessed value of all land granted in one or more conservation easements by a taxpayer to one or more qualified entities during the taxable year. It provides that the amount of the credit for any taxable year may not exceed \$10,000 for all land granted during the taxable year and that the amount of the credit for any taxable year may not exceed a taxpayer's state tax liability for that taxable year. The bill also provides that the granting of a conservation easement is not eligible for a credit unless the conservation easement is unlimited in duration.

Effective Date: January 1, 2002.

Explanation of State Expenditures: The Department of State Revenue (DOR) will incur some administrative expenses related to the revision of tax forms, instructions, and computer programs to incorporate this credit. These expenses could be absorbed given the DOR's existing budget and resources.

Explanation of State Revenues: *The fiscal impact associated with this bill is projected to be a \$10,000 annual loss of state revenue beginning in FY 2003.*

This bill provides a tax credit for any person or corporation (including pass-through entities) that grants a conservation easement to a qualified holder, provided that the easement is perpetual. The amount of the credit would equal 25% of the assessed value of the property granted. The credit could be taken against the taxpayer's liability under the Gross Income Tax, Adjusted Gross Income (AGI) Tax, Supplemental Net Income Tax, Bank Tax, Savings and Loan Association Tax, Insurance Premium Tax, and Financial Institutions Tax.

The number of conservation easements existing in the state is not known. In addition, there is little data available to project the number that may be granted each year. Such easements are held by divisions of the Department of Natural Resources (DNR), federal entities such as the Department of Agriculture's U.S. Forest

Service, and non-public organizations such as the Nature Conservancy. Legislation similar to this proposal was passed in Colorado in 2000 (HB 1348), and the Colorado Legislative Council Staff estimated that the number of qualified easement donations would be 50 each year. It is difficult to predict the number that might be granted in Indiana, especially as this bill would provide a new incentive for land-owners to grant conservation easements. For purposes of this analysis, the annual number was assumed to be 50.

According to information from the DNR's Division of Forestry, a typical easement granted in Indiana is between 100 and 150 acres in size and may be valued at between \$300 and \$1,000 per acre. If a credit were granted for an easement on a 100-acre parcel valued at \$500 per acre, the credit would equal \$12,500 (\$50,000 in assessed value multiplied by 25%). If 50 such easements were granted in a single tax year, the loss of state revenue could be as much as \$625,000. *However, this bill limits the total amount of credits granted in one year to \$10,000.*

This credit may not be carried forward or carried back and is not refundable if the credit exceeds a taxpayer's liability in a given year. Revenue from the taxes listed above (the taxes against which these credits may be taken) is deposited in the General Fund and the Property Tax Replacement Fund. As this bill is effective January 1, 2002, the annual state revenue loss will begin in FY 2003.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: Dan Ernst, Assistant State Forester, Division of Forestry, DNR, (317) 232-4105; Jim Lewis, Land Office, Department of Administration, (317) 232-2335; Colorado Legislative Council Staff, http://www.state.co.us/gov_dir/stateleg.html.